

AMENDED IN ASSEMBLY AUGUST 18, 2016

AMENDED IN ASSEMBLY JUNE 30, 2016

AMENDED IN SENATE MARCH 28, 2016

SENATE BILL

No. 1226

Introduced by Senators Beall and Huff
(Coauthors: Senators Bates, Nguyen, Stone, and Vidak)
(Coauthor: Assembly Member Salas)

February 18, 2016

An act to amend, repeal, and add Section 4652.5 of the Welfare and Institutions Code, relating to developmental services.

LEGISLATIVE COUNSEL'S DIGEST

SB 1226, as amended, Beall. Regional centers: audits and reviews.

Under existing law, the Lanterman Developmental Disabilities Services Act, the State Department of Developmental Services is authorized to contract with regional centers to provide services and supports to individuals with developmental disabilities. Existing law requires an entity that receives payments from one or more regional centers to obtain an independent audit or independent review report of its financial statements based upon the amount it receives from the regional center or regional centers during the entity's fiscal year.

This bill would, commencing January 1, 2018, instead require the entity to obtain an independent review report of an independent audit of its financial statements based upon the amount it receives from the regional center or regional centers during each state fiscal year.

Existing law requires regional centers to notify the department of all qualified opinion reports or reports noting significant issues that directly or indirectly impact regional center services within 30 days after receipt.

This bill would also require a regional center to submit copies of all independent audit reports that it receives to the department for review. The bill would require the department to compile data, by regional center, on vendor compliance with audit requirements and opinions resulting from audit reports and to annually publish the data in a performance dashboard.

Vote: majority. Appropriation: no. Fiscal committee: yes.
State-mandated local program: no.

The people of the State of California do enact as follows:

1 SECTION 1. Section 4652.5 of the Welfare and Institutions
2 Code is amended to read:
3 4652.5. (a) (1) An entity that receives payments from one or
4 more regional centers shall contract with an independent accounting
5 firm to obtain an independent audit or independent review report
6 of its financial statements relating to payments made by regional
7 centers, subject to both of the following:
8 (A) If the amount received from the regional center or regional
9 centers during the entity's fiscal year is more than or equal to five
10 hundred thousand dollars (\$500,000), but less than two million
11 dollars (\$2,000,000), the entity shall obtain an independent review
12 report of its financial statements for the period. Consistent with
13 Subchapter 21 (commencing with Section 58800) of Chapter 3 of
14 Division 2 of Title 17 of the California Code of Regulations, this
15 subdivision shall also apply to work activity program providers
16 receiving less than five hundred thousand dollars (\$500,000).
17 (B) If the amount received from the regional center or regional
18 centers during the entity's fiscal year is equal to or more than two
19 million dollars (\$2,000,000), the entity shall obtain an independent
20 audit of its financial statements for the period.
21 (2) This requirement does not apply to payments made using
22 usual and customary rates, as defined by Title 17 of the California
23 Code of Regulations, for services provided by regional centers.
24 (3) This requirement does not apply to state and local
25 governmental agencies, the University of California, or the
26 California State University.
27 (b) An entity subject to subdivision (a) shall provide copies of
28 the independent audit or independent review report required by
29 subdivision (a), and accompanying management letters, to the

1 vendoring regional center within nine months of the end of the
2 fiscal year for the entity.

3 (c) Regional centers that receive the audit or review reports
4 required by subdivision (b) shall review and require resolution by
5 the entity for issues identified in the report that have an impact on
6 regional center services. Regional centers shall take appropriate
7 action, up to termination of vendorization, for lack of adequate
8 resolution of issues.

9 (d) (1) Regional centers shall notify the department of all
10 qualified opinion reports or reports noting significant issues that
11 directly or indirectly impact regional center services within 30
12 days after receipt. Notification shall include a plan for resolution
13 of issues.

14 (2) A regional center shall submit copies of all independent
15 audit reports that it receives to the department for review. The
16 department shall compile data, by regional center, on vendor
17 compliance with audit requirements and opinions resulting from
18 audit reports and shall annually publish the data in the performance
19 dashboard developed pursuant to Section 4572.

20 (e) For purposes of this section, an independent review of
21 financial statements shall be performed by an independent
22 accounting firm and shall cover, at a minimum, all of the following:

23 (1) An inquiry as to the entity's accounting principles and
24 practices and methods used in applying them.

25 (2) An inquiry as to the entity's procedures for recording,
26 classifying, and summarizing transactions and accumulating
27 information.

28 (3) Analytical procedures designed to identify relationships or
29 items that appear to be unusual.

30 (4) An inquiry about budgetary actions taken at meetings of the
31 board of directors or other comparable meetings.

32 (5) An inquiry about whether the financial statements have been
33 properly prepared in conformity with generally accepted accounting
34 principles and whether any events subsequent to the date of the
35 financial statements would have a material effect on the statements
36 under review.

37 (6) Working papers prepared in connection with a review of
38 financial statements describing the items covered as well as any
39 unusual items, including their disposition.

(f) For purposes of this section, an independent review report shall cover, at a minimum, all of the following:

(1) Certification that the review was performed in accordance with standards established by the American Institute of Certified Public Accountants.

(2) Certification that the statements are the representations of management.

(3) Certification that the review consisted of inquiries and analytical procedures that are lesser in scope than those of an audit.

(4) Certification that the accountant is not aware of any material modifications that need to be made to the statements for them to be in conformity with generally accepted accounting principles.

(g) The department shall not consider a request for adjustments to rates submitted in accordance with Title 17 of the California Code of Regulations by an entity receiving payments from one or more regional centers solely to fund either anticipated or unanticipated changes required to comply with this section.

(h) (1) An entity required to obtain an independent review report of its financial statement pursuant to subparagraph (A) of paragraph (1) of subdivision (a) may apply to the regional center for, and the regional center shall grant, a two-year exemption from the independent review report requirement if the regional center does not find issues in the prior year's independent review report that have an impact on regional center services.

(2) An entity required to obtain an independent audit of its financial statements pursuant to subparagraph (B) of paragraph (1) of subdivision (a) may apply to the regional center for an exemption from the independent audit requirement, subject to both of the following conditions:

(A) If the independent audit for the prior year resulted in an unmodified opinion or an unmodified opinion with additional communication, the regional center shall grant the entity a two-year exemption.

(B) If the independent audit for the prior year resulted in a qualified opinion and the issues are not material, the regional center shall grant the entity a two-year exemption. The entity and the regional center shall continue to address issues raised in this independent audit, regardless of whether the exemption is granted.

(3) A regional center shall annually report to the department any exemptions granted pursuant to this subdivision.

1 (i) This section shall remain in effect only until January 1, 2018,
2 and as of that date is repealed, unless a later enacted statute, that
3 is enacted before January 1, 2018, deletes or extends that date.

4 SEC. 2. Section 4652.5 is added to the Welfare and Institutions
5 Code, to read:

6 4652.5. (a) (1) An entity that receives payments from one or
7 more regional centers shall contract with an independent accounting
8 firm to obtain an independent audit or independent review report
9 of its financial statements relating to payments made by regional
10 centers, subject to both of the following:

11 (A) If the amount received from the regional center or regional
12 centers during each state fiscal year is more than or equal to five
13 hundred thousand dollars (\$500,000), but less than two million
14 dollars (\$2,000,000), the entity shall obtain an independent review
15 report of its financial statements for the ~~period~~ *entity's fiscal year*
16 *that includes the last day of the most recent state fiscal year*.
17 Consistent with Subchapter 21 (commencing with Section 58800)
18 of Chapter 3 of Division 2 of Title 17 of the California Code of
19 Regulations, this subdivision shall also apply to work activity
20 program providers receiving less than five hundred thousand dollars
21 (\$500,000).

22 (B) If the amount received from the regional center or regional
23 centers during each state fiscal year is equal to or more than two
24 million dollars (\$2,000,000), the entity shall obtain an independent
25 audit of its financial statements for the ~~period~~ *entity's fiscal year*
26 *that includes the last day of the most recent state fiscal year*.

27 (2) This requirement does not apply to payments made using
28 usual and customary rates, as defined by Title 17 of the California
29 Code of Regulations, for services provided by regional centers.

30 (3) This requirement does not apply to state and local
31 governmental agencies, the University of California, or the
32 California State University.

33 (b) An entity subject to subdivision (a) shall provide copies of
34 the independent audit or independent review report required by
35 subdivision (a), and accompanying management letters, to the
36 vendoring regional center within nine months of the end of ~~each~~
37 *state the entity's fiscal year*.

38 (c) Regional centers that receive the audit or review reports
39 required by subdivision (b) shall review and require resolution by
40 the entity for issues identified in the report that have an impact on

1 regional center services. Regional centers shall take appropriate
2 action, up to termination of vendorization, for lack of adequate
3 resolution of issues.

4 (d) (1) Regional centers shall notify the department of all
5 qualified opinion reports or reports noting significant issues that
6 directly or indirectly impact regional center services within 30
7 days after receipt. Notification shall include a plan for resolution
8 of issues.

9 (2) A regional center shall submit copies of all independent
10 audit reports that it receives to the department for review. The
11 department shall compile data, by regional center, on vendor
12 compliance with audit requirements and opinions resulting from
13 audit reports and shall annually publish the data in the performance
14 dashboard developed pursuant to Section 4572.

15 (e) For purposes of this section, an independent review of
16 financial statements shall be performed by an independent
17 accounting firm and shall cover, at a minimum, all of the following:

18 (1) An inquiry as to the entity's accounting principles and
19 practices and methods used in applying them.

20 (2) An inquiry as to the entity's procedures for recording,
21 classifying, and summarizing transactions and accumulating
22 information.

23 (3) Analytical procedures designed to identify relationships or
24 items that appear to be unusual.

25 (4) An inquiry about budgetary actions taken at meetings of the
26 board of directors or other comparable meetings.

27 (5) An inquiry about whether the financial statements have been
28 properly prepared in conformity with generally accepted accounting
29 principles and whether any events subsequent to the date of the
30 financial statements would have a material effect on the statements
31 under review.

32 (6) Working papers prepared in connection with a review of
33 financial statements describing the items covered as well as any
34 unusual items, including their disposition.

35 (f) For purposes of this section, an independent review report
36 shall cover, at a minimum, all of the following:

37 (1) Certification that the review was performed in accordance
38 with standards established by the American Institute of Certified
39 Public Accountants.

1 (2) Certification that the statements are the representations of
2 management.

3 (3) Certification that the review consisted of inquiries and
4 analytical procedures that are lesser in scope than those of an audit.

5 (4) Certification that the accountant is not aware of any material
6 modifications that need to be made to the statements for them to
7 be in conformity with generally accepted accounting principles.

8 (g) The department shall not consider a request for adjustments
9 to rates submitted in accordance with Title 17 of the California
10 Code of Regulations by an entity receiving payments from one or
11 more regional centers solely to fund either anticipated or
12 unanticipated changes required to comply with this section.

13 (h) (1) An entity required to obtain an independent review
14 report of its financial statement pursuant to subparagraph (A) of
15 paragraph (1) of subdivision (a) may apply to the regional center
16 for, and the regional center shall grant, a two-year exemption from
17 the independent review report requirement if the regional center
18 does not find issues in the prior year's independent review report
19 that have an impact on regional center services.

20 (2) An entity required to obtain an independent audit of its
21 financial statements pursuant to subparagraph (B) of paragraph
22 (1) of subdivision (a) may apply to the regional center for an
23 exemption from the independent audit requirement, subject to both
24 of the following conditions:

25 (A) If the independent audit for the prior year resulted in an
26 unmodified opinion or an unmodified opinion with additional
27 communication, the regional center shall grant the entity a two-year
28 exemption.

29 (B) If the independent audit for the prior year resulted in a
30 qualified opinion and the issues are not material, the regional center
31 shall grant the entity a two-year exemption. The entity and the
32 regional center shall continue to address issues raised in this
33 independent audit, regardless of whether the exemption is granted.

34 (3) A regional center shall annually report to the department
35 any exemptions granted pursuant to this subdivision.

36 (i) This section shall become operative on January 1, 2018.